

PUBLIC EMPLOYEES RETIREMENT BOARD

Employee Investment Advisory Council

100 North Park

Helena MT 59601

March 9, 2005

Kathy Samson; Council Chair with the following in attendance, called the meeting to order:

Council Members:

Tom Schneider, Labor Organization Representative

Tom Bilodeau, Labor Organization Representative

Carroll South, Board of Investments Representative

Kevin McRae, State Employee Representative

Angela McDannel, State Employee Representative

John Northey, State Employee Representative

Glen Leavitt, University System Representative

Ron Alles, Local Government Employee Representative

James Helgeson, Local Government Employee Representative

Terrence Smith, Local Government Employee Representatives

Pam Fleisner, School District Employee Representative

Jim Christnacht, Retired Public Employee Representative

Others in attendance are as follows: MPERA staff: Mike O'Connor, Carolyn Miller, Melanie Symons, Roxanne Minnehan, Rob Virts, and Kelly Jenkins. Also in attendance were Scott Faris of Arnerich Massena & Associates, Inc. and Tim Jones of Great West Retirement Services.

HOUSEKEEPING ITEMS

Glen Leavitt moved to accept the minutes of the January 12, 2005 EIAC meeting; Tom Schneider (and others) made the second. The motion passed with twelve votes in favor.

ANNUAL 457 FUND REVIEW

Glen Leavitt moved to **replace** the Columbia High Yield Z Fixed Income Fund; the rationale was the fund has been on watch and the return has been below the benchmark index for over 3 years. Additionally, the fund is not tracking the index relative to style and credit quality of investments. Angela McDannel made the second; the motion passed with twelve votes in favor.

John Northey moved to **take no action** to place the Davis NY Venture A Large Cap Domestic Equity on watch. The rationale was the underperformance concerns noted by the consultant are not significant. The fund is still meeting or exceeding the benchmarks established in the IPS. Angela McDannel made the second; the motion passed with twelve votes in favor.

Carroll South moved not to replace the Neuberger Berman Genesis Trust Small Cap Value* and to **maintain the watch** status. Although the funds 1 & 3 year performance is below the small cap value index, it is above the broad small cap index. The long-term performance, 5 & 10 years, is above both indices. *The fund classifies itself as a small cap value fund; Morningstar classifies it as a growth fund. The consultant notes it now has approx 40% of it's holding in mid-cap stocks.

The EIAC does not believe performance is an issue with the fund. They did not believe sufficient information was known regarding the fund's possible "style drift" to warrant a replacement recommendation. Additionally, EIAC considered the high(er) assets in the funds as an indicator of participant satisfaction.

EIAC believes maintaining the fund on watch – due to the style drift question as well as recent underperformance relative to the small cap value index – is prudent. Tom Schneider made the second; the motion passed with twelve in favor.

Kevin McRae moved to authorize the consultant, Arnerich, Massena and Associates, to **conduct a search** for a Small Cap Value fund. If the Board accepts the other March 9, 2005 EIAC recommendations for the 457 Plan, both of the current Small Cap funds will be in a "watch" status. More critical, the current fund that fills the Small Cap Value "slot" appears to be drifting into the Mid Cap fund category and may not appropriately fill the Small Cap Value slot. Further EIAC recommendations may occur based upon the search results. Tom Schneider made the second; the motion passed with 12 votes in favor.

Tom Schneider moved to place the RS Diversified Growth Small Cap Growth on **watch**. The fund has underperformed both the small cap growth index and the broad small cap index for the 1, 3 and 5-year timeframes. The motion passed with twelve votes in favor.

PENDING WORK

- 1) Four GW Asset Allocation qualitative questions
- 2) Simplify plan and options
- 3) Possible consolidation of plan funds
- 4) Consider manager search for funds on watch during the third quarter
- 5) Compile 457 Plan Survey results
- 6) Determine if we providing adequate or understandable service to our plan participants

CLOSING BUSINESS

The 401(a) Plan Annual Review will be presented at the next meeting in April. Kathy Samson adjourned the meeting.